



Claire McCaskill

Missouri State Auditor

May 2006

City of Piedmont, Missouri

Year Ended June 30, 2005



Office Of
Missouri State Auditor
Claire McCaskill

May 2006

The following findings were included in our audit report on the City of Piedmont, Missouri.

The city of Piedmont has experienced significant operating losses for the past four years in the Water and Sewer Fund. The city's operating costs have increased over the past several years, while total operating revenues have not increased sufficiently to keep up with the increased costs. To help offset the operating losses, the city transfers capital improvement sales tax and industrial development revenues to the Water and Sewer Fund, which totaled \$189,841 during the four years ended June 30, 2005. The Board of Aldermen have not taken any action on recommendations made from independent studies that the city increase its water and sewer rates.

The Board of Aldermen approved budget amendments to increase budgeted expenditures by \$170,500 on June 14, 2005, at the end the city's fiscal year, and after the additional expenditures were already incurred. These expenditures consisted of \$21,000 from the Park Fund for two construction projects, \$65,000 from the Water and Sewer Fund for capital expenses, \$2,500 from the Fire Fund for equipment, and \$82,000 for transfers out of the Industrial Development Fund. Budget amendments made after expenditures have exceeded the budget do not allow for the budget to be used as an effective management tool.

In the annual audited financial statements, the activity of several city funds are combined into one fund called the General Fund, including the Capital Improvement Sales Tax Fund which is restricted by state law and should be reported separately. Also, the city transferred approximately \$173,700 of capital improvement sales tax monies to various city funds. While it appears capital improvement expenditures are incurred in the various city funds, the city does not document how the expenditures of capital improvement sales tax monies transferred to other funds complied with state law.

The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. City records indicate that from July 2004 to June 2005, 185 million gallons of water were pumped through the city's system, but only 85 million gallons were billed to water customers. While the city accounted for about 70 million gallons of water not billed, it appears the city is still experiencing a significant amount of water loss.

Of the total utility accounts receivable of \$65,044 at June 30, 2005, current month's billings totaled \$27,200, delinquent amounts due from current utility customers totaled \$12,806, and delinquent amounts due from customers no longer located in the city totaled \$25,038. The city has not officially written off this amount as uncollectible, and classifies the \$25,038 as bad debts. Some of these amounts have gone uncollected for several years.

YELLOW SHEET

The city also needs to improve utility system controls and procedures regarding segregation of duties, depositing receipts intact, and approval of billing adjustments.

Bids were either not solicited or bid documentation was not retained in some instances, including \$11,700 for a police vehicle and \$5,965 for excavating services at the city airport. In addition, bids were also not solicited for \$18,156 spent on parts and labor to repair pumps in one of the sewer treatment lift stations. City officials indicated this was not bid because these were emergency repairs and the health of the community was at risk. However, board minutes did not document these reasons.

The city does not maintain mileage, usage, or maintenance logs for any of the 27 vehicles and equipment it owns and expended approximately \$41,447 in fuel costs during the year ending June 30, 2005. Also, the city pays for gasoline that the Mayor uses in his personal vehicle. The Mayor is not required by the city to report mileage or actual vehicle expenses he incurs for city business; therefore, the city has no assurance that the Mayor's gasoline expenses were entirely incurred for city business.

The city incurred expenditures that do not appear reasonable and prudent uses of public funds, including: a "Christmas Greeting" advertisement, flowers for funerals of relatives of former city officials, and annual bonuses for employees for a "job well done".

Also included in the report are recommendations related to fixed assets, property tax procedures, street maintenance, and the municipal court.

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CITY OF PIEDMONT, MISSOURI

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STATE AUDITOR'S REPORT



CLAIRE C. McCASKILL
Missouri State Auditor

To the Honorable Mayor
and
Members of the Board of Alderman
City of Piedmont, Missouri

The State Auditor was petitioned under Section 29.230, RSMo, to audit the City of Piedmont, Missouri. The city engaged Jeffrey J. Eftink, Certified Public Accountant (CPA), to audit the city's financial statements for the year ended June 30, 2005. To minimize duplication of effort, we reviewed the report and substantiating working papers of the CPA firm. The scope of our audit of the city included, but was not necessarily limited to, the year ended June 30, 2005. The objectives of this audit were to:

1. Perform procedures to evaluate the petitioners' concerns.
2. Review internal controls over significant management and financial functions.
3. Review compliance with certain legal provisions.

To accomplish these objectives, we reviewed minutes of meetings, written policies, financial records, and other pertinent documents; interviewed various personnel of the city, as well as certain external parties; and tested selected transactions. Our methodology included, but was not necessarily limited to, the following:

1. We obtained an understanding of petitioner concerns and performed various procedures to determine their validity and significance.
2. We obtained an understanding of internal controls significant to the audit objectives and considered whether specific controls have been properly designed and placed in operation. However, providing an opinion on internal controls was not an objective of our audit and accordingly, we do not express such an opinion.
3. We obtained an understanding of legal provisions significant to the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contract, grant agreement, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide

reasonable assurance of detecting significant instances of noncompliance with the provisions. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion.

Our audit was conducted in accordance with applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and included such procedures as we considered necessary in the circumstances.

The accompanying History, Organization, and Statistical Information is presented for informational purposes. This information was obtained from the city's management and was not subjected to the procedures applied in the audit of the city.

The accompanying Management Advisory Report presents our findings arising from our audit of the City of Piedmont, Missouri.



Claire McCaskill
State Auditor

January 6, 2006 (fieldwork completion date)

The following auditors participated in the preparation of this report:

Director of Audits:	Thomas J. Kremer, CPA
Audit Manager:	Mark Ruether, CPA
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MANAGEMENT ADVISORY REPORT -
STATE AUDITOR'S FINDINGS

CITY OF PIEDMONT, MISSOURI
 MANAGEMENT ADVISORY REPORT -
 STATE AUDITOR'S FINDINGS

1. Financial Condition, Budgets, and Restricted Funds

The city's Water and Sewer Fund has experienced significant operating losses in recent years. The city needs to improve its budgeting procedures, ensure all restricted funds are reported separately on the audited financial statements, and document that restricted capital improvement funds are used in accordance with state law.

A. The city has experienced significant operating losses for the past four years in the Water and Sewer Fund, as follows:

Fiscal Year Ended June 30,	Operating Revenues	Operating Expenses	Operating Income (Loss)	Other Income	Net Income (Loss)
2005	313,783	431,106	(117,323)	105,779	(11,544)
2004	311,837	472,397	(160,560)	73,434	(87,126)
2003	321,381	425,258	(103,877)	127,912	24,035
2002	295,553	360,326	(64,773)	2,998	(61,775)

While the city's operating costs have increased over the past several years, total operating revenues have not increased sufficiently to keep up with the increased costs. To help offset the operating losses, the city transfers capital improvement sales tax and industrial development revenues to the Water and Sewer Fund. These transfers are included in the "Other Income" column and totaled \$189,841 during the four years ended June 30, 2005. Additional sources of "Other Income" include bank interest and sale of materials.

Depreciation on capital assets is included in the operating expenses of the Water and Sewer Fund, and depreciation expense does not involve the use of cash assets. As a result, the amount of net loss shown on the above chart does not directly correlate to a decrease in the cash assets and other current assets (such as accounts receivable and supplies inventory) of the Water and Sewer Fund. However, the net current assets (current assets less current liabilities) of the Water and Sewer Fund have decreased from \$107,987 at June 30, 2002, to \$68,789 at June 30, 2005.

While the city has recently obtained a study which includes recommendations that the city increase its water and sewer rates, the Board of Aldermen has not taken any action on the recommendations included in this study. The city has been able to partially offset water and sewer operating losses in recent years with other

income, such as the transfers from other funds; however, it would appear that continued annual operating losses in the Water and Sewer Fund would negatively affect the overall long-term financial condition of the city. The Board of Aldermen needs to closely monitor the ongoing financial condition of the Water and Sewer Fund and other city funds, and develop a long-range plan which will reduce or eliminate the net losses of the Water and Sewer Fund and improve the overall financial condition of the city.

- B. The city's annual budgets do not include the beginning balance for the General Fund or the projected ending balances for any city funds. In addition, the Board of Aldermen approved budget amendments to increase budgeted expenditures by \$170,500 on June 14, 2005, at the end of the city's fiscal year, to reflect unbudgeted expenditures made during the year ending June 30, 2005. These expenditures consisted of \$21,000 from the Park Fund for two construction projects, \$65,000 from the Water and Sewer Fund for capital expenses, \$2,500 from the Fire Fund for equipment, and \$82,000 for transfers out of the Industrial Development Fund. Prior to these amendments, expenditures had already exceeded the original budget. In addition, no other budget amendments were made prior to this date.

Budgets are a planning tool and should serve as a guide throughout the year to monitor revenues and expenditures. The budgets should include beginning available and estimated ending balances for all funds to inform the board and the public regarding the anticipated financial condition of each fund. In addition, amendments made after expenditures have exceeded the budget do not allow for the budget to be used as an effective management tool.

- C. In the annual audited financial statements, the activity of several city funds, including the General Fund, Capital Improvement Sales Tax Fund, and Fire Department Fund, are combined into one fund called the General Fund. The monies in the General Fund are not restricted for specific purposes; however, the monies in the Capital Improvement Sales Tax Fund, which totaled \$22,557 at June 30, 2005, are restricted by state law for capital improvement purposes and should be reported separately.

The balance of the Fire Department Fund at June 30, 2005, totaling \$82,729, includes money the city has been setting aside for the purchase of fire fighting equipment, as well as rental income from the local hospital for storing an ambulance and related equipment in the city's fire department building. City officials indicated that the disposition of this rental income needs to be resolved because a local fire protection district contributed funds to help build the city's fire department building, and some of the rental income proceeds may need to be shared with the fire protection district. The Board of Aldermen indicated that no ordinance or resolution has been passed to legally restrict the use of the money in the Fire Department Fund.

While the city prepares separate budgets for these funds, combining these restricted and unrestricted funds on the audited financial statements may not present a clear picture of the overall financial condition of these funds. The financial condition of the General Fund has been declining, and the city's general ledger shows the cash balance of General Fund at June 30, 2005, as \$12,985; however, the audited cash balance of the General Fund was \$122,636 at June 30, 2005, which included the balance of the Capital Improvement Sales Tax Fund, Fire Department Fund, and other miscellaneous funds. The city should review this situation with their CPA firm to ensure all restricted funds are separately reported on the audited financial statements. In addition, the city should work with the fire protection district to determine how the rental income should be used and whether any of the money should be distributed to the fire protection district.

- D. As noted in Part A above, the city transfers capital improvement sales tax monies to the Water and Sewer Fund, as well as to other funds. While it appears capital improvement expenditures are incurred in the various city funds, the city does not document how the expenditures of capital improvement sales tax monies transferred to the other funds complied with state law. During the year ended June 30, 2005, the city transferred approximately \$173,700 of capital improvement sales tax monies to various city funds, including \$90,200 to the Park Fund, \$46,900 to the General Fund, \$18,800 to the Water and Sewer Fund, \$14,200 to the Fire Fund, \$1,900 to the Street Fund, and \$1,700 to the Street Light Fund.

Section 94.577, RSMo, states that all capital improvement sales tax receipts shall be deposited in a special trust fund and used solely for capital improvements, and Section 94.575, RSMo, defines capital improvements as assets having an estimated useful life of at least two years. The city needs to adopt policies and procedures to document that all capital improvement sales tax monies are spent in accordance with state law.

WE RECOMMEND the Board of Alderman:

- A. Closely monitor the financial condition of the Water and Sewer Fund, and develop a long-term plan to operate within its available resources by reducing or eliminating operating losses.
- B. Ensure the budgets include the beginning and projected ending balances for all city funds, and approve budget amendments prior to incurring the actual expenditures.
- C. Work with the city's CPA firm to ensure all restricted funds are separately reported on the audited financial statements, and work with the local fire protection district to determine the proper use or disposition of the ambulance rental income.

- D. Ensure documentation is prepared and retained to show that all expenditures of capital improvement sales tax monies comply with state law.

AUDITEE'S RESPONSE

- A. *The City of Piedmont is aware of the financial condition of the water and sewer funds, and investigating a number of options which will make it operate within its available resources.*
- B. *The City Treasurer will ensure the budgets include the estimated beginning and projected ending balances for all city funds. The City Treasurer will make every effort to get approval for budget amendments prior to incurring the actual expenditures.*
- C. *The City of Piedmont will work closely with the city's independent auditor to ensure all restricted funds are separately reported on the audited financial statements, and work with the Clearwater Fire Protection District to determine the proper use or disposition of the ambulance rental income.*
- D. *The City of Piedmont believes that all transfers from the Capital Improvements Fund were to properly fund capital improvements in other funds but agrees that the transfers were not properly documented. The City Treasurer will ensure documentation is prepared and retained to show that all expenditures of capital improvement sales tax monies comply with state law.*

2. Utility System Controls and Procedures
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The city does not reconcile gallons of water pumped to gallons of water billed, and more than 50 percent of the water pumped was not billed to customers during the year ended June 30, 2005. There is little oversight or segregation of duties for the utility system, and utility receipts are not always deposited intact and the method of payment received is not always recorded on the utility payment stubs. There is inadequate oversight or independent review of utility billing adjustments and delinquent accounts, and the city does not enforce its shut-off ordinance for customers that do not pay utility bills on a timely basis.

- A. The city does not reconcile the total gallons of water billed to customers to the gallons of water pumped. City records indicate that from July 2004 to June 2005, 185 million gallons of water were pumped through the city's system, but only 85 million gallons were billed to water customers; therefore, 54 percent of total water pumped was not billed. The Utility Supervisor attempted to account for the total amount not billed by estimating non-billable usage for the fire department, parks, and greenways, and estimating the amount of water lost during water main breaks and water used for plant backwash and hydrant flushing. In addition, the Utility Supervisor added 8 percent as an acceptable amount of unaccounted for water loss, but could still only account for approximately 70 million gallons of total

non-billable water usage. Therefore, it appears the city is experiencing a significant amount of water loss which it could not account for.

To help detect significant water loss on a timely basis and to help ensure all water usage is properly billed, the city should reconcile the total gallons of water purchased to the total gallons of water billed on a monthly basis and investigate any significant differences. The Public Service Commission generally recommends such differences be investigated if unbilled water usage exceeds 15 percent.

- B. There is little oversight or adequate segregation of duties related to the city's utility system. The City Collector performs all functions related to preparing and recording monthly utility bills, receiving and recording utility payments, and depositing money received. In addition, as noted in subsequent sections of this MAR, the City Collector makes account adjustments without approval of the Board of Aldermen and is responsible for monitoring delinquent accounts and initiating shut-off orders.

To safeguard against possible loss or misuse of funds, internal controls should provide reasonable assurance that all transactions are accounted for properly and assets are adequately safeguarded. Internal controls would be improved by segregating the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility billings and payments recorded and deposited.

- C. Utility receipts are not always deposited intact and the method of payment (cash, checks, money orders) was not always recorded or correctly recorded on the utility payment stubs. In addition, no reconciliation was performed between the composition of monies received to the composition of monies deposited.

Our review of the twenty-two deposits made during June 2005 noted thirteen instances where the amount of cash recorded on the utility stubs did not agree to the amount of cash deposited. The amount of cash deposited during June 2005 exceeded the amount of cash recorded by \$590.

Depositing monies intact helps ensure accurate accounting of utility receipts and reduces the possibility of loss or misuse of funds. To adequately safeguard funds and ensure receipts are accounted for properly, receipts should be deposited intact and the composition of receipts should be reconciled to the bank deposits.

- D. The City Collector makes adjustments to water and sewer billings for incorrect or invalid meter readings and water leaks. These adjustments are entered into the city's computerized billing system by the City Collector and can be printed out or accessed separately on an adjustments sheet for each customer. While reasons to

adjust the billings may be valid, adjustments are normally made at the discretion of the City Collector and are not reviewed and approved by the Utility Supervisor and the Board of Aldermen.

To ensure all billing adjustments are valid, all billing adjustments should be reviewed on a monthly basis by someone independent of the billing and collection process, such as the Utility Supervisor, and approved by the Board of Aldermen.

- E. Adequate efforts have not been made to pursue the collection of delinquent accounts. Of the total utility accounts receivable of \$65,044 at June 30, 2005, current month's billings totaled \$27,200, delinquent amounts due from current utility customers totaled \$12,806, and delinquent amounts due from customers no longer located in the city totaled \$25,038. While the city has not officially written off this amount as uncollectible, the city classifies the \$25,038 as bad debts and some of these amounts have gone uncollected for several years.

The city has not adequately enforced its shut-off ordinance, which indicates the water supply will be shut off to a home or business if utility bills are not paid within 30 days of the due date. The City Collector has been given discretion to initiate shut-off proceedings, and according to city officials, the shut-off ordinance is rarely enforced. In addition, delinquent accounts are not periodically reviewed by someone independent of the billing and collection process.

To help maximize utility revenues, the city should develop procedures to more aggressively pursue the collection of delinquent utility accounts, including enforcement of the city's shut-off ordinance. Someone independent of the billing and collection process should periodically review delinquent accounts to ensure adequate collection efforts are performed. In addition, the Board of Aldermen should periodically approve write-off of accounts deemed uncollectible.

WE RECOMMEND the Board of Alderman:

- A. Reconcile gallons of water pumped to the gallons billed on a monthly basis and investigate significant differences.
- B. Segregate the duties of receipting and depositing monies from that of preparing bills, recording payments, and following up on delinquent accounts. If proper segregation of duties cannot be achieved, at a minimum, there should be an independent review of the reconciliations between utility billings to payments deposited and recorded.
- C. Deposit utility receipts intact and reconcile the composition of receipts to the composition of bank deposits.
- D. Require independent review and approval of all utility billing adjustments.

- E. Ensure adequate procedures are established for the collection of delinquent utility accounts, including periodic independent reviews of delinquent accounts and enforcement of the city's shut-off ordinance. The Board of Aldermen should also periodically approve write-off of accounts deemed uncollectible.

AUDITEE'S RESPONSE

- A. *The city's water lines are all very old. Water leaks are common over much of the community and there is a lot of un-metered city use of water. Therefore, it will be difficult to get an accurate accounting of the water used, but the City of Piedmont will make a periodic attempt to reconcile gallons of water pumped to the gallons billed and investigate any significant differences.*
- B. *The City of Piedmont does not foresee the likelihood of segregating the duties for the Collector's office. Therefore an independent review of the reconciliations between utility billings to payments deposited and recorded will be implemented.*
- C. *The Collector has always made an effort to reconcile the deposit of utility receipts composition to the bank deposits and will continue to do so in the future.*
- D. *Because of the timing of billings, it is not feasible to ask the Board of Alderman for permission when the adjustments are made. Therefore, until the Board of Alderman adopt a policy for this issue the Collector will continue to make the adjustments based on his judgment of each individual case.*
- E. *In the past the Board of Aldermen has always left the collections to the discretion of the Collector and given the Collector a free hand in determining when to pursue aggressive collection action. The Collector will try to do a better job with collections. He will also present to the Board of Alderman annually a report of accounts deemed uncollectible for at least seven years to be written off.*

3. Expenditures and Related Matters
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The city did not always document that it complied with its written procurement policies for some purchases and does not reconcile equipment expenditures to additions to the fixed asset records. The city does not maintain mileage, usage, and maintenance logs for city vehicles and equipment. The city does not have written employee travel expense policies and pays for gasoline expenses for the Mayor's personal vehicle without requiring the Mayor to account for city-related travel expenses. The city incurred some expenditures that do not appear to be prudent or necessary uses of public funds and did not enter into a written agreement with a not-for-profit corporation which received city funds.

- A. The city has not documented that it followed its procurement and bidding policies for some purchases. The city's policy requires at least three oral or written

quotations for purchases between \$2,500 and \$5,000, at least three written bids for purchases between \$5,000 and \$25,000, and advertisement for bids for purchases of \$25,000 or more. Purchases of \$2,500 or more also require pre-approval of the Mayor and Board of Alderman. The city's policy allows emergency purchases up to \$10,000 without soliciting bids.

Bids were either not solicited or bid documentation was not retained in some instances, including \$11,700 for a police vehicle and \$5,965 for excavating services at the city airport.

Bids were also not solicited for \$18,156 spent on parts and labor to repair pumps in one of the sewer treatment lift stations. City officials indicated this was not bid because these were emergency repairs and the health of the community was at risk. However, board minutes did not document the reasons bids were not solicited.

In two other instances, bids were solicited for street paving (\$10,728) and roofing materials (\$6,873); however, there was no documentation that these expenditures were pre-approved by the Mayor and Board of Alderman, as required by the city's procurement policies.

Formal bidding procedures for major purchases provide a framework for economical management of city resources and help ensure the city receives fair value by contracting with the lowest and best bidders. Competitive bidding helps ensure all parties are given an opportunity to participate in the city's business. Complete documentation should be maintained of all bids received and reasons why the winning bid was selected. If circumstances provide that bidding is not necessary or practical, such as sole source providers or emergency situations, the reasons for not soliciting bids in accordance with the city's policies should be documented.

- B. Additions to the inventory listing are not reconciled to equipment expenditures to ensure all fixed assets are properly recorded. Our review of city expenditures noted a lawn mower purchased for \$1,900 was not recorded on the fixed asset listing. Reconciling equipment expenditures to additions to the fixed assets records would help ensure all purchases have been added to the fixed asset records.

In addition, the date of the disposition of fixed assets is not adequately documented. While it appears few assets were disposed of during the year ended June 30, 2005, many items noted as sold or otherwise disposed of on the fixed asset listing did not include the disposition date.

Adequate general fixed asset records are necessary to secure better internal control over city property and provide a basis for determining proper insurance coverage required on city property.

- C. The city does not maintain mileage, usage, or maintenance logs for any of the vehicles and equipment owned by the city. The city maintains twenty seven vehicles and heavy equipment, and expended approximately \$41,447 in fuel costs during the year ending June 30, 2005.

Mileage and usage logs are necessary to document appropriate use of the vehicles and equipment to support fuel charges. The mileage, usage, and maintenance logs should include the purpose and destination of each trip, the daily beginning and ending odometer readings (or hours of use for equipment), and the operation and maintenance costs. These logs should be reviewed by the Board of Aldermen to ensure vehicles and equipment are used only for city business, are being properly utilized, and help identify vehicles and equipment which should be replaced. Information on the logs should be reconciled to fuel purchases and other maintenance charges.

- D. The city does not have written policies for employee travel expenses. The city paid approximately \$2,000 for travel expenses during the year ended June 30, 2005. While city personnel indicated there are no maximum daily meal limits, the amounts paid for some out-of-town meals appeared excessive, including one meal of \$54 charged by the Mayor. In addition, it is the city's unwritten policy to reimburse mileage in personal vehicles at the federal reimbursement rate.

Formal written travel and meal policies are necessary to ensure only necessary and reasonable travel and meal expenses are incurred and paid by the city. Such policies should address the types of expenses which may be incurred, the extent of those expenses which will be paid by the city, and the types of documentation which must be submitted by the employee prior to receiving reimbursement.

- E. The city pays for gasoline that the Mayor pumps into his personal vehicle. This practice was approved by the Board of Aldermen in August 1999 because there was apparently no city-owned vehicle available for the Mayor to use for city business. The Mayor is not required by the city to report mileage or actual vehicle expenses he incurs for city business; therefore, the city has no assurance that the Mayor's gasoline expenses were entirely incurred for city business. Total gasoline expenses for the Mayor for the year ended June 30, 2005 were \$1,478.

The city should require the Mayor to report all city-related expenses incurred on his personal vehicle to ensure all gasoline charges are reasonable, or consider reimbursing the Mayor for actual mileage incurred and discontinue paying for gasoline. In addition, these gasoline payments appear to be taxable compensation to the Mayor but are not reported on his W-2 forms. IRS regulations require travel and expense reimbursements be reported on the recipients' W-2 forms unless the recipients are required to report the related expenses to their employer.

- F. The city incurred the following expenditures that do not appear to be necessary to operate the city or reasonable and prudent uses of public funds:

1. In December 2004, the city spent \$220 for a "Christmas Greetings" advertisement placed in the local newspaper. The advertisement included a picture of the Board of Alderman, the Mayor, and other city officials and employees, and their names with a Christmas greeting. (The city did not make a similar expenditure in December 2005.)
2. The city spent \$311 on flowers for funerals of relatives of former city officials and employees for the year ended June 30, 2005.
3. The board approved annual employee bonuses at the end of each calendar year for a "job well done." Each full-time employee received \$100 and each part-time employee received \$50. For the year ended June 30, 2005, the bonuses totaled \$2,000. (The city did not pay any bonuses at the end of calendar year 2005.)

Bonuses given to employees appear to represent additional compensation for services previously rendered and, as such, are in violation of Article III, Section 39 of the Missouri Constitution and are contrary to Attorney General's Opinion No. 72, 1955 to Pray, which states, "...a government agency deriving its power and authority from the Constitution and laws of the state would be prohibited from granting extra compensation in the form of bonuses to public officers after the service has been rendered."

- G. In 2005, the city gave \$3,000 to the Highway 67 Corporation, a not-for-profit corporation to promote improvements to Highway 67 which is located near Piedmont; however, there is no written agreement to define the specific services to be provided by the corporation. City officials indicated the money was used for marketing.

The Missouri Constitution prohibits the use of public money or property to benefit any private individual, associations, or corporations except as provided in the constitution. Without a written agreement that clearly indicates the governmental purpose being provided by the entity, these uses could be considered to be a violation of the constitution. Written agreements are necessary to quantify the services to be performed and the compensation to be paid for the services, provide a means for the city to monitor compliance with the contract terms, and protect the city in the event of a dispute over the terms of the agreement. In addition, Section 432.070, RSMo, requires all contracts to be in writing.

WE RECOMMEND the Board of Aldermen:

- A. Ensure the city procurement policies are followed by soliciting bids for all applicable purchases, retain documentation of all bids, and prepare adequate documentation, including reasons and board approval, for all emergency purchases. In addition, all major purchases should be approved by the Board of Aldermen in accordance with city policy.

- B. Reconcile fixed asset expenditures to additions to the fixed asset records to ensure all applicable assets are added to the inventory records. In addition, the date of disposition should be recorded for all fixed assets.
- C. Maintain complete and accurate mileage, usage, and maintenance logs for all vehicles and heavy equipment. The logs should be reviewed by a supervisor periodically for completeness and reasonableness.
- D. Develop written travel and meal policies to ensure that only necessary and reasonable travel and meal expenses will be paid by the city.
- E. Require the Mayor to report actual vehicle expenses incurred while conducting city business, or consider discontinuing the practice of providing gasoline for the Mayor's personal vehicle and instead provide mileage reimbursements to the Mayor. In addition, the city should report as taxable compensation on W-2 forms the gasoline expenses provided for the Mayor's personal vehicle for which there is no accounting of the actual business-related expense. Prior years' W-2 forms should be amended as applicable.
- F. Ensure expenditures made with public monies are reasonable and prudent uses of those funds and are necessary for city operations.
- G. Ensure financial assistance to other entities provide a governmental benefit to the city and do not violate state law or the state constitution. Written agreements should be prepared which specifically address the services to be provided and compensation to be paid.

AUDITEE'S RESPONSE

- A. *A concerted effort will be made to follow the city's procurement policy.*
- B. *The inventory list will be monitored to ensure all applicable assets are added or removed from the inventory.*
- C. *A maintenance log for all city vehicles will be established and implemented.*
- D. *The City of Piedmont is in the process of rewriting the employee handbook and a written travel and meal expense policy will be included.*
- E. *The City of Piedmont will request that the Mayor keep a mileage log for the use of his personal vehicle used for city business. In the future any taxable compensation will be reported on W-2's.*
- F. *All expenditures made with public monies will be monitored and be used only for necessary city operations.*

- G. *Every effort will be made to require written agreements addressing services provided and compensation for said services.*

4. Street Maintenance Plan

The city does not prepare annual maintenance plans for city streets. A street maintenance plan should be prepared in conjunction with the annual budget and include a description of the streets to be worked on, the type of work to be performed, a cost estimate, the dates such work could begin, and any other relevant information. The plan should be included in the budget message and be approved by the board. In addition, a public hearing should be held to obtain input from the city residents. During the year ended June 30, 2005, \$326,000 was spent from the Street Fund for street-related purposes.

A formal maintenance plan would serve as a useful management tool and provide greater input into the overall budgeting process. Such a plan provides a means to more effectively monitor and evaluate the progress made in the repair and maintenance of streets throughout the year.

WE RECOMMEND the Board of Aldermen prepare a formal maintenance plan for the city streets at the beginning of the year and periodically update the plan throughout the year. In addition, the board should review the progress made in the repair and maintenance of streets to make appropriate decisions on future projects.

AUDITEE'S RESPONSE

The City of Piedmont is aware of the need for a street maintenance plan and will contact Ozark Foothills Regional Planning Commission to help prepare a maintenance plan for the city streets and periodically update the plan.

5. Property Tax Procedures

Controls over the preparation of and changes to the property tax books need improvement, and annual reports of property tax collections and delinquent taxes are not prepared. The method of payment is not recorded for property tax receipts. Property taxes collected during the year ended June 30, 2005, totaled approximately \$50,000.

- A. The City Collector prepares the city's current and delinquent property tax books. Section 94.290, RSMo, and Section 115.091 of the city code require the City Clerk to extend the city's tax books and charge the City Collector with the amount of the tax books. In addition, the City Collector makes additions and abatements to the tax books without review or approval by the Board of Aldermen.

To ensure compliance with state law and to ensure proper control over property tax charges and collections, the City Clerk should prepare the property tax books

or review and verify the tax books, and charge the City Collector with the total property taxes to be collected. In addition, any changes to the tax books (additions or abatements) should be prepared by the City Clerk, approved by the Board of Aldermen, and charged to the City Collector.

- B. The City Collector does not prepare monthly or annual reports to the Board of Aldermen of charges, collections, and amounts uncollected as required by state law. Also, the City Collector is not preparing a list of delinquent taxes to present to the Board of Aldermen in April of each year, as required by state law.

Section 79.310, RSMo, requires the City Collector to prepare annual reports to the Board of Aldermen of collections and amounts uncollected. Section 94.320, RSMo, requires the City Collector to prepare lists of delinquent taxpayers and amounts to be collected and present the list in April of each year to the Board of Aldermen.

- C. The city receives cash and checks for the payment of property taxes. The tax bills which accompany the payment serve as the city's record of receipt; however, the method of payment (cash, check, money order, etc.) is not recorded on the tax bills. To ensure proper handling and safeguarding of city monies, the method of payment should be indicated on the tax bills and the composition of receipts should be reconciled to the bank deposits.

WE RECOMMEND the Board of Aldermen:

- A. Require the City Clerk to prepare the tax books as required by state law and city ordinance, or ensure the City Clerk reviews the tax books and charges the City Collector with the total taxes to be collected. In addition, the City Clerk should prepare and the Board of Aldermen should approve all tax book additions and abatements.
- B. Require the City Collector to prepare annual reports of property tax charges, collections, and amounts uncollected. The City Collector should also prepare lists of all property taxes unpaid and file these with the Board of Aldermen in April of each year, as required by state law.
- C. Require the City Collector to record the method of payment received on the corresponding tax bills and reconcile the composition of receipts to bank deposits.

AUDITEE'S RESPONSE

- A. *The City Clerk will review and charge the Collector, including additions and abatements approved by the Board of Aldermen, with the total property taxes to be collected as required by state law.*

- B. *The Collector will prepare a summary for the Board of Alderman of charges, collections, and delinquent taxes and amounts uncollected as required by law.*
- C. *The Collector will be more diligent in noting payment method on tax bills and reconciling the composition of receipts to bank deposits.*

6. Municipal Court

Some receipt slips issued do not indicate method of payment and the composition of receipt slips issued is not reconciled to the composition of bank deposits. The numerical sequence of traffic tickets is not adequately accounted for. The Municipal Judge does not review or document approval of the disposition of cases handled through the Traffic Violations Bureau (TVB) and does not always document approval of cases handled through the court. The city collected fines and court costs of approximately \$25,000 during the year ended June 30, 2005.

- A. Some receipt slips issued by the municipal court do not indicate the method of payment received (cash, check, or money order) and no reconciliation is performed between the composition of receipt slips issued and the monies deposited. To ensure receipts are deposited intact, the method of payment received should be indicated on all receipt slips and the composition of receipt slips issued should be reconciled to the composition of bank deposits.
- B. The police department does not maintain adequate records to account for the numerical sequence for all traffic tickets issued. A listing is maintained for ticket books assigned to police officers, and a log is maintained which documents the ticket numbers issued, date issued, violator's name, officer's ID number, and the charge. However, some ticket numbers assigned to officers were not listed on the ticket issuance log, and no one ensures all ticket numbers have been accounted for and listed on the log. Without a proper accounting of all traffic ticket numbers assigned and issued, neither the police department nor the court have adequate assurance that all tickets issued were forwarded to the court for processing.
- C. The Municipal Judge does not review or document his approval of the disposition of cases handled through the TVB. In addition, while the Municipal Judge normally writes the finding and sentence on dockets for cases heard in court, he does not sign the dockets to document his approval of the case dispositions. To ensure the proper disposition of all cases has been entered in the court records, the Municipal Judge should review each TVB case and court docket, and document his approval of all case dispositions.

WE RECOMMEND the Municipal Court:

- A. Indicate the method of payment on all receipt slips issued, and reconcile the composition of receipts to the composition of bank deposits.

- B. And the police department ensure records are maintained to account for the numerical sequence of all traffic tickets assigned and issued.
- C. Ensure the Municipal Judge's approval is documented for all dispositions on the court dockets, including TVB cases.

AUDITEE'S RESPONSE

- A. *The method of payment will be indicated on all receipt slips issued and composition of receipts will be reconciled to the bank deposits.*
- B. *The Police Department will make an effort to account for the numerical sequence of all traffic tickets assigned and issued.*
- C. *The Court Clerk will ensure the Municipal Judge's approval is documented for all dispositions on the court dockets, including TVB cases.*

HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

CITY OF PIEDMONT, MISSOURI
HISTORY, ORGANIZATION, AND
STATISTICAL INFORMATION

The city of Piedmont is located in Wayne County. The city was incorporated in 1873 and is currently a fourth-class city. The population of the city in 2000 was 1,992.

The city government consists of a mayor and four-member board of aldermen. The board members are elected for 2-year terms. The mayor is elected for a 4-year term, presides over the board of aldermen, and votes only in the case of a tie. The Mayor, Board of Aldermen, and other officials during the year ended June 30, 2005, are identified below. The compensation of elected officials and the City Clerk is established by ordinance. All elected officials receive the same cost of living increases that are approved for city employees.

Mayor and Board of Alderman	Dates of Service During the Year Ended June 30, 2005	Compensation Paid for the Year Ended June 30, 2005
Gaylon Watson, Mayor	July 2004 – June 2005	\$ 19,042
Dennis Kime, Alderman (1)	July 2004 – June 2005	715
William Kirkpatrick, Alderman	July 2004 – June 2005	733
Anthony S. Tucker, Alderman	July 2004 – June 2005	733
Victor Thompson, Alderman (2)	May - June 2005	123
<u>Other Elected Officials</u>		
William McMurry, City Collector	July 2004 – June 2005	27,152
Richard Sanders, Chief of Police (3)	May – June 2005	4,698
James Gravley, Chief of Police (3)	July 2004	3,840
<u>Other Principal Officials</u>		
Carolyn Lovelace, City Clerk/ Court Clerk	July 2004 – June 2005	26,379
Dennis Ross, City Treasurer	July 2004 – June 2005	8,776
C. Harold Allen, Utility Supervisor	July 2004 – June 2005	30,488
Robert Ramshur, City Attorney (4)	July 2004 – June 2005	4,743
Jon Kiser, City Prosecuting Attorney	July 2004 – June 2005	6,000

- (1) In April 2004, employee and elected official pay raises were approved in addition to annual cost of living increases. Alderman Kime was not eligible for the additional increase until his new term of office started in April 2005.

- (2) Alderman Thompson replaced Alderman Fred Handy who resigned in May 2004. The alderman position remained vacant until a May 2005 special election. The special election was ordered because the April 2005 election results were contested.
- (3) James Gravley resigned in July 2004, and Cory Thompson served as acting Chief of Police until Richard Sanders was elected in a May 2005 special election. The special election was ordered because the April 2005 election results were contested.
- (4) The city is billed on an hourly basis from the Robert Ramshur Law Office for Robert Ramshur to serve as City Attorney. For the year ended June 30, 2005, the city paid the law office \$4,743 for legal services.

In addition to the officials identified above, the city employed 22 full-time employees and 9 part-time employees on June 30, 2005.

Assessed valuations and tax rates for 2005 and 2004 were as follows:

ASSESSED VALUATIONS*	<u>2005</u>	<u>2004</u>
Real estate	\$ 10,338,264	10,238,280
Railroad and utility	314,111	330,887
Total	<u>\$ 10,652,375</u>	<u>10,569,167</u>

*Taxes are not levied on personal property assessed valuation of approximately \$4.3 million for 2005 and 2004.

TAX RATES PER \$100 ASSESSED VALUATION

	<u>2005</u>	<u>2004</u>
General	\$.2200	.2200
Library	.1000	.1000
Street lights	.1300	.1300
Cemetery	.0300	.0300

TAX RATES PER \$1 OF RETAIL SALES

	<u>Rate</u>
General	\$.0100
Capital improvement	.0050
Transportation	.0050